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UNCLAS SECTION 01 OF 19 PRETORIA 000226

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COMMERCE ALSO FOR HVINEYARD
TREASURY FOR GCHRISTOPOLUS, BRESNICK AND AJEWEL
DEPT PASS USTR FOR PCOLEMAN AND WJACKSON

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SUBJECT: INVESTMENT CLIMATE STATEMENT 2005 - SOUTH AFRICA

REF: (A) 04 STATE 250356, (B) 04 STATE 141379

¶1. In response to reftel A, here is post's 2005 investment climate statement for South Africa, chapter 6 of the next Country Commercial Guide.

¶2. BEGIN TEXT

Chapter 6 Investment Climate Statement FY 2005

6.1 Openness to Foreign Investment

The government of South Africa (SAG) welcomes foreign investment as a key driver for the country's economic development and integration into the global economy. Its macroeconomic management is sound. Investment policies that promote openness and raise productivity and growth are key objectives of the SAG. In 2004 the government announced a goal of investment reaching 25 percent of GDP by 2014. Moody's gave South Africa (SA) a sovereign debt rating of Baa1, three steps into the investment grade, in January
¶2005. Standard & Poor and Fitch also rank South Africa at investment grade. The SAG has liberalized trade and developed its competitiveness by lowering tariffs, abolishing most import controls, and reforming the regulatory environment.

South Africa's record of political and macroeconomic stability over the past decade has helped to create a promising medium to long-term economic climate for local and international firms in South Africa. South Africa, through its Trade and Investment South Africa (TISA) promotion agency, provides investment facilitation services for inbound investors. While investment opportunities are abundant in many sectors of the economy, the agency concentrates on sectors which research has indicated a high SA comparative advantage. The agency offers the following services to international investors:

    Information on sectors and industries;
    Consultation on the regulatory environment;
    Facilitation on investment missions;
    Links to joint venture partners;
    Information on incentive packages;
    Assistance with work permits;
    Logistical support for relocation.

The Department of Trade and Industry (DTI) published a comprehensive guide for investors about the dynamics and principles involved in the South African business environment. (For the "Investor's Handbook" see "publications" on web site: www.dti.gov.za)

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The government has created a number of incentives for the potential investor in South Africa. All business sectors are open to investors, no government approval is required, and there are almost no restrictions on the form or extent of foreign investment. For example, in his February 2001 budget speech, the Finance Minister announced an R3-billion incentive package for investors in strategic industrial projects. It entails tax allowances of either 50 or 100% of an approved investment, and is managed through the Strategic Industrial Project (SIP) program of the Department of Trade and Industry (DTI). Up to June 2003, investments worth R3.2 billion have been approved for tax break allowances under the SIP, a program aimed at companies that will invest more than R50 million and will contribute to the growth, development and competitiveness of specific industry sectors. The program will run until July 2005.

In July 2004, the Department of Trade and Industry (DTI) announced a new incentive to attract investment, both foreign and domestic, in the film industry. It established the Film and Television Production Rebate Scheme that allows eligible applicants to receive a rebate of 15% of the production expenditures for foreign productions and up to 25% for qualifying South African productions. Film projects must have begun after April 1, 2004 and must reach a

threshold of 25 million Rand in order to qualify for the rebate. Other requirements include 50% completion of the principal photography in South Africa and a minimum of four weeks photography time. Eligible productions include movies, tele-movies, television series, and documentaries. The maximum rebate for any project will be 10 million Rand (approximately $1.5 million). Details on the entire scheme are available at the DTI web site at www.dti.org.za.
To encourage investors to establish or relocate industry and business to areas throughout South Africa, the country's various regions (provinces) have development bodies that offer incentives. These incentives, which vary from area to area, include reduced interest rates, reduced rentals for land and buildings, cash grants for relocation of plant and employees, reduced rates for basic facilities, rail age and other transport rebates and assistance in the provision of housing.

The Minister of Trade and Industry expressed the government's view on foreign investment as "...our sincere hope to attract real and growing international investor commitment to South Africa and, at the same time, to fully capitalize on the opportunities to bring about dynamic growth in our country. In so doing we hope to enhance commercial and industrial development, while creating sustainable employment and providing training for our vast resource pool." He continued to say that since the inception of the new democratic government in 1994, South Africa has effectively adhered to discipline, predictable economic fundamentals. Through this arduous process, South Africans have developed a strong entrepreneurial culture, keen to jointly develop the country with international partners. From a geographic perspective, South Africa is proud of the role to be played in facilitating and supporting the development of the region, offering a wide array of skills and technical understanding.

SA's policy and regulatory frameworks can, however, serve as disincentives to new investment or impediments to the profitability of firms already operating in SA. Several foreign companies have in the past complained that South Africa's immigration legislation and the application of the law made it difficult to get work permits for their foreign employees. In particular they indicated that unnecessary delays, rejections of applications and limits (quotas) on foreign workers in a given field call into question potential investors' ability to staff their operations with the necessary skills at a given time. It was argued that the immigration legislation was a remnant from the apartheid-era and did not take into account recent developments and the opening up of the South African market. The SAG acknowledged this problem and during 2001 introduced an Immigration Bill that would create more categories of permits for temporary residents. The legislation was contentious. Parliament finally approved the legislation in May 2002. Critics have charged that the Act, which was intended to assist with the process of bringing more skilled workers into SA, created uncertainty and confusion.

Companies have also complained about the introduction, through a regulation in early 2003, of a 2% training levy on the salaries of expatriates in order to enter the country under an expedited visa procedure. The levy does not apply to expatriates already resident in the country or to inter-company transfers. Expatriates who enter the country under the normal visa procedure are exempt from the levy, but the normal process is complex and time consuming. The government's decision to implement the levy-based system through regulation rather than legislation has also been controversial. A legal challenge to the regulations further delayed the implementation of the new immigration legislation and this created more uncertainty about the effective handling of applications for visas.

In January 2004, President Mbeki signed into law the Broad-Based Black Economic Empowerment (BBBEE) Act of 2003, the legislation enacting the Black Economic Empowerment (BEE) strategy. The Act directs the Minister of Trade and Industry to develop a national strategy for BEE, issue BEE implementing guidelines in the form of Codes of Good Practice, encourage the development of industry specific charters, and establish a National BEE Advisory Council to review progress in achieving BEE objectives.

The Minister released three codes in December 2004 with seven more due in early 2005. The recently released codes address specific issues pertaining to the BEE Framework, Equity Ownership, and Management and include a new generic scorecard with suggested targets for areas such as equity ownership, management, procurement, and equality in employment. The codes are intended to harmonize existing and future industry empowerment charters. Sectors that have completed or are close to finalizing empowerment charters for their respective industries include: accounting, agriculture, chemical, cosmetics, clothing and footwear, construction, engineering services, financial services,

forestry, health, information and communications technology (ICT), liquid fuels, liquor, marketing, mining, property, tourism, transport, and wine. The Minister is expected to establish the National BEE Advisory Council early in 2005.

U.S. companies support the broad goals of South Africa's Black Economic Empowerment (BEE) policies. They have contributed to the positive transformation of the economy, including through their employment and management practices, and have significant programs that support historically disadvantaged individuals (HDIs). They do have questions, however, about some of the details of BEE proposals and how they will be implemented. They have concerns about the lack of clarity and consistency in the BEE rules. A major concern is whether HDI equity ownership will become mandatory and a cost of doing business with the South African government. The Minister of Trade and Industry is developing a statement on equity ownership for multinationals to be included in the Code of Good Practice on Equity Ownership, which is expected to address the concerns of U.S. companies.

Poor or unclear regulations in key sectors, such as telecommunications, are also disincentives to investment. In instances where the regulator is weak and unable to enforce its own regulations, foreign firms are placed in a weaker competitive position compared to the national operator, thereby affecting their profitability. Costs associated with pursuing legal action to resolve disputes also cut into the bottom line. Improvement is expected in the telecoms industry, however, following the Communications Minister's September 2004 announcement liberalizing much of the telecoms environment by February 2005. As part of this announcement, the regulator plans to allow value-added network service (VANS) providers self-provide their own facilities or lease telecommunications facilities from private telecommunications network operator. In addition, the regulator is proposing that licensees as well as VANS could resell spare network capacity.

In contrast to domestic investors, foreign investors face local borrowing restrictions imposed by exchange control authorities. Such restrictions apply to `affected persons' - companies or other bodies in which (1) 75% or more of the capital assets or earnings may be used for payment to, or for the benefit of, a non-resident, or (2) 75% or more of the voting securities, voting power, power of control, capital, assets or earnings are vested in, or controlled by, any non-resident. No person in SA may provide credit to a non-resident or "affected person" without exchange control exemption. Non-residents and "affected persons," however, may borrow up to 100% of the South African Rand value of funds introduced from abroad and invested locally. Additionally, the ability to borrow locally increases if both residents and non-residents own the local enterprise.

The SAG has an official policy on the restructuring of state assets, which include privatization as an accepted option. There are four big parastatals, all at different levels of privatization: Eskom (power generation and distribution), Denel (defense), Transnet (transportation) and Telkom (telecommunications). Eskom supplies nearly 94% of South Africa's electricity, makes substantial profits and has a turnover of nearly R30 billion per year. Transnet dominates the transport sector and contributes more than 3% of South Africa's GDP. It comprises 13 companies involved in multi-modal transport and includes railways, an airline, ports and a pipeline. Transnet has reported that they will keep only four of its businesses

Prior to May 2002, South African legislation provided Telkom a monopoly on certain international and fixed line telecommunications services. The government is in the final stages of completing the shareholder structure of a second fixed-line operator, however, to compete with Telkom. In 2004, the U.S./Malaysia Thintana Consortium sold its 30 percent stake in Telkom, which it had acquired in 1997, for nearly $2 billion.

Following national elections in April 2004, the Government unveiled plans to restructure state-owned enterprises rather than to proceed with privatization at this time in an effort to support the administration's two major policy objectives of reducing unemployment and creating economic growth. Consequently, in 2005 the SAG estimates much lower proceeds from the sale of state-owned assets than in previous years. Since the completion of the Telkom deal, government has been left with fewer sizeable state entities to privatize. Internationally economic conditions are not favorable to attract partners, especially in the airline industry. Proceeds in 2005 are expected from the planned "concessioning" of the Durban port container terminal. Other anticipated deals are the sale of "non-core" businesses unbundled from Transnet and Airports Company South Africa (ACSA), which manages South Africa's nine principal airports.

The medium-term privatization of smaller parastatals such as Sentech (radio transmission), Safcol (forestry), the SA Post Office, or in the case of Denel (Defense R&D and manufacturing), a hoped-for partial buy-in by foreign suitors, may also afford lucrative opportunities for foreign participation.

6.2 Conversion and Transfer Policies

Exchange control in South Africa is administered by the South African Reserve Bank's (SARB) Exchange Control Department and through commercial banks that have been designated as "authorized dealers" in foreign exchange. All international commercial transactions must be accounted for through authorized foreign exchange dealers. There is no difficulty in obtaining foreign exchange. The financial sector in South Africa is well developed and there are only limited delays in the conversion and transfer of funds. The spot turnover in the South African foreign exchange market is substantial, reaching a daily average of $1 billion during the month of May 2003.

There are no restrictions on foreign firms wishing to invest in share capital. Investors are advised to ensure that the share certificates are endorsed "non-resident" by an authorized dealer in order to return disposal proceeds and dividends to their country of origin. A record of funds introduced into South Africa should be kept. For every purchase of exchange, irrespective of the amount involved, authorized dealers are required to report to the SARB details of payments received from foreign partners by South African residents.

In general there are no controls over the removal by non-residents of investment income or capital gains. Repayment of foreign loans by South African residents, however, requires prior approval. Dividends may be paid to a non-resident without the approval of the SARB. Dividends due to a non-resident and paid pursuant to a de-registration or liquidation are transferable against documentation confirming this fact. All loans from outside the Common Monetary Area to South African residents require prior Exchange Control approval. Approval is normally granted provided the minimum tenor of the loan is for a period of at least one month and a market-related interest rate is charged - that is up to prime plus 3% for South African denominated loans and up to prime plus 2% for foreign denominated loans which are not shareholder-related funds, with shareholder's funds restricted to prime.

For every sale of foreign exchange, irrespective of the amount involved, authorized dealers are required to report to the SARB details of payments made to foreign parties by South African residents. Royalties, license and patent fees to non-residents, where no local manufacturing is involved, require the approval of the SARB. Manufacturing royalties (as opposed to sales/marketing royalties) are subject to approval by the DTI, which will communicate its decision to the licensee or the Exchange Control Department where applicable, which will enable an approach to a bank directly to transfer the royalty payments. Authorized dealers on production of an invoice may pay current account payments, such as management fees and other fees for services provided, provided that such payments are not calculated as a percentage of sales, profits, purchases or income.
Significant progress has been made in the liberalization of exchange controls since 1994. The financial Rand mechanism was abolished in 1995, removing most controls on non-residents. In June 1997, controls on South African residents were considerably relaxed, and virtually all controls on current account transactions were removed. Resident private individuals who are over 18 and South African taxpayers in good standing have also been permitted to invest up to R500, 000 abroad since 1 July 1997. The limit has since increased to R750, 000 per person.

On February 26, 2003 the Minister of Finance announced further measures to relax exchange controls. The changes included the increase of the allowance governing South African corporations' use of South African funds to finance new approved direct investment in foreign countries as well as the unwinding of blocked assets. It was also announced that dividends repatriated from foreign subsidiaries will in future be eligible for an exchange control credit, which will allow them to be re-exported for approved foreign direct investments. Furthermore, the tax payable on foreign dividends was also removed in instances where a South African taxpayer has a meaningful interest in the foreign subsidiary paying the dividend. New emigrants wishing to exit more than the permitted R750, 000 from South Africa will in future be allowed to apply to the Exchange Control Department of the SARB to do so, subject to an exiting schedule and an exit charge of 10% of the amount.

In October 2004, the Finance Minister announced in his

Medium Term Budget Policy Statement (MTBPS) the relaxation of exchange rate controls for corporations. The rules had limited offshore investments to R2 billion per project for investments in Africa and R1 billion elsewhere, in addition to 20 percent of the excess cost. With the new announcement, the limits on outward investments by local corporations and restrictions on the repatriation for foreign dividends are removed as well as restrictions on individuals to invest in foreign firms listed on the South African exchanges. Even though there are no restrictions on corporations' foreign direct investment, corporations will still be required to apply to the Reserve Bank for approval. Limits on pension funds, insurance companies, mutual funds (unit trusts) and individuals are still in place but expectations are that they will be removed soon. More relaxed exchange controls facing corporations should help the government's goal of investment reaching 25 percent of GDP by 2014.

Further questions on exchange control can be addressed to:
South African Reserve Bank
Exchange Control Division
P.O. Box 427, Pretoria, 0001
Tel: (27)(12) 313-3911; Fax: (27)(12) 313-3785
www.reservebank.co.za

6.3 Expropriation and Compensation

There is no record of any expropriation or nationalization of American investment in South Africa since 1924. Under the Expropriation Act of 1975 and the Expropriation Act Amendment of 1992, the State is entitled to expropriate property for public necessity or public utility. The decision to expropriate is an administrative one vested in the State. Compensation is determined by the amount the property would have been realized in an open market transaction by a willing seller to a willing buyer.

Skewed ownership of productive assets in South Africa is still one of the most visible legacies of apartheid. The racially discriminatory property laws of the past resulted in highly disproportionate patterns of land ownership. The government's Land Reform for Agricultural Development Program (LRAD) has been designed to expand the range of support measures that will be available to previously disadvantaged South African citizens to access land specifically for agricultural purposes. The SAG recognizes that market-based programs of state directed land redistribution perform better than programs that are operated exclusively by the public sector. The government regularly confirms its commitment to ensuring the success of this program and ensuring that individuals from historically disadvantaged groups obtain access to land in a speedy and orderly fashion. In cases where expropriation has taken place, the landowner was fully compensated.

6.4 Dispute Settlement

South Africa is a member of the New York Convention of 1958 on the recognition and enforcement of foreign arbitration awards, but is not a member of the International Center for the Settlement of Investment Disputes. South Africa has an objective system for enforcing property and contractual rights. The government does not interfere in the court system. South Africa applies its commercial and bankruptcy laws with consistency. South Africa has signed various investment agreements with a number of countries and recognizes, and is recognized by, the International Chamber of Commerce, which supervises the resolution of transnational disputes. In 2004 some foreign companies operating in the mining sector have suggested the implementation of BEE policies may lead to investment disputes.

6.5 Performance Requirements and Incentives

In September 2000, the Department of Trade & Industry (DTI) announced that the manufacturing support schemes would be replaced with a "six pack" of incentives consisting of the:

Small Medium Enterprise Development Program (SMEDP), which offers manufacturing and tourism enterprises with "significant expansions of their operations", tax-free cash grants for two years, based on the cost of the investment in land, buildings, machinery, equipment, and vehicles. A maximum of R 3.05 million per year for enterprises with an investment in qualifying assets of up to R 100 million.

Skills Support Programme (SSP) Skills Support Programme (SSP) offers a maximum of 50% of the training costs, the development of training curriculum and or land and buildings related to training in order to encourage businesses to introduce new and advanced skills to their workforce. This grant will is payable for up to three years.

Critical Infrastructure Facility (CIF) supplements the existing public or private sector infrastructure, by funding a top-up grant between 9 and 30% of actual costs.

Industrial Development Zones (IDZ) consists of two zones of operation: Customs secured area (CSA), and industries and services corridor (ISC). A CSA is a delimited area with entrance and exit points controlled by Customs personnel. Each CSA has a dedicated customs office providing inspection and clearance services, and a one-stop
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administrative center to facilitate the approval and permit

processes. CSA-based enterprises are eligible for: duty-free import of production-related raw materials and inputs; zero rate on VAT for supplies procured from South Africa; and right to sell into South Africa upon payment of normal imported duties on finished goods. ISCs are industrial and office park environments adjacent to CSAs, occupied by service providers to CSA enterprises. The government first designates areas suitable for IDZs. Prospective IDZ companies then apply for permits to develop and operate an IDZ.

Foreign Investment Grant (FIG) is open to foreign investors (i.e. at least 50% foreign shareholding) located outside SACU and/or the Southern African Development Community (SADC). It offers up to 15% of the value of new machinery and equipment (a maximum of R3 million per entity), based on accepted relocation costs.

Strategic Investment Projects (SIP) offers a tax
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allowance of up to 100% (a maximum allowance of R600 million per project) on the cost of buildings, plant and machinery, for strategic investments of at least R50 million.

In addition, the Industrial Development Corporation (IDC), a self-financing, state-owned, development finance institution, established in 1940, continues to provide credit facilities to South African exporters. Aimed at enabling them to offer competitive terms to foreign purchasers, the credit facilities are still subject to a South African local content requirement of at least 70%, and the availability of export credit insurance cover. Local content considerations are taken into account when comparing tenders for government procurement purposes
The IDC also provides loan financing to the private sector for the development of viable secondary manufacturing in its target sectors and is often prepared to make an equity investment or enter into joint ventures with foreign investors.

There are several government-supported bodies that provide technical assistance for new industries. These include the Council for Scientific and Industrial Research (CSIR), a multi-disciplinary research, development, and implementation organization; Technifin, a government-owned firm financing the commercialization of new technology and products; MINTEK (formerly known as the Council for Mineral and Metallurgical Technology); and the Council for Geoscience that fulfils the role of a geological survey and undertakes geologically-based investigations and services.

The SAG is not a member of the plurilateral WTO Government Procurement Agreement (GPA). According to South African government authorities, joining the GPA could limit South Africa's objectives towards promoting small, micro, and medium-sized enterprises and the "black economic empowerment" (BEE) program.

The government procurement framework is still regulated through the State Tender Board Act of 1968. However, South Africa is trying to align the buying procedures of national, provincial, local, and state-owned companies. As part of the Public Finance Management Act Regulations of 1999, the state and provincial tender boards ceased to exist on 31 March 2002, in order to devolve accountability to accounting officers. Depending on their level of responsibility, the accounting officers are now allowed to approve government purchases up to a certain amount. There is also an appointed independent ombudsperson to provide an interim mechanism for quick and effective intervention on complaints from businesses.

The basic principles for government procurement in South Africa, in terms of socio-economic objectives, are set out in the Constitution: procurement by an organ of State or any other institution identified in national legislation must, on the one hand, be "in accordance with a system which is fair, equitable, transparent, competitive and cost-effective," and, on the other hand, allow for categories of preference and the protection, or advancement, of persons disadvantaged by unfair discrimination, within a framework to be prescribed by national legislation. Other principles on which procurement must be based in South Africa are accountability, and the just in time (JIT) delivery principle.

Price preferences are taken into account for the purpose of comparing tenders: the preferences are deducted from the tender price after the tenders have been evaluated and

brought to a comparative basis. Price preferences, aimed at promoting local manufacture, are based on such criteria as use of the SABS (South African Bureau of Standards) mark and locally manufactured electronic systems and components. The preference is up to 10% if local content is more than 80%, up to 10% for the use of locally manufactured electronic systems and components, plus a minimum of 5% for local design, provided that the two together do not exceed 10%, and 2.5% for the use of products that carry the SABS mark. Price preferences are generally cumulative.

The Preferential Procurement Policy Framework Act of 2000, and amended draft regulations promulgated in November 2004, stipulates that preferences will apply to all tenders, irrespective of the amount. Preference points, calculated on the basis of comparative and not tendered prices, may be allocated within the following limits: an 80/20 point system for tenders up to R1 million. A maximum of 80 points is allocated to the lowest acceptable tender in terms of price; higher price tenders receive fewer points. A maximum of 20 points is awarded to bidding firms who meet minimum industry targets for ownership, management, procurement, and equal employment of historically disadvantaged individuals (HDI). For tenders above R1 million, a 90/10-point system is used on the same basis. The contract must be awarded to the bidder who scores the highest points, unless other developmental objective criteria justify the award to another bidder. An organ of State may be exempted from provisions of the Framework Act if public or national security interests justify such exemption, or if the likely bidders are international suppliers. Foreign firms can only bid through a local agent.

Parastatals also generally follow the government's procurement policy. Eskom and Transnet have no preference system, while Telkom grants preferences based on local content. Any bidder for a parastatal contract, whose bid contains imported content worth over $10 million, must submit an "industrial participation" (IP) plan showing that the bidder will invest in new or incremental business in South Africa.

Under the National Industrial Participation Program (NIPP), the seller must invest in a South African business to the value of at least 30% of the value of the imported content of the tender. The industrial policy of the Department of Defense and the Armaments Corporation of South Africa imposes an IP obligation on all defense purchases exceeding $2 million; this obligation is known as "Defense Industrial Participation" (DIP). Defense purchases exceeding $2 million but less than $10 million require a DIP obligation of up to 50%, and defense purchases exceeding US$10 million require a DIP obligation of at least 50%.

The NIPP, which became mandatory on 1 September 1996, resembles an offset contract in the sense that goods and/or services imported under the tender contract are partially offset by exports of services, and, to a certain extent, goods, during the period of fulfillment of the IP obligation.

6.6 Right to Private Ownership and Establishment

Private property rights are strongly protected by South African law. In general, all foreign and domestic private entities are entitled to own business enterprises and engage in profit-making activities. Private entities are allowed freely to establish, acquire, and dispose of interests in business enterprises. The acquisition of an existing business enterprise is usually achieved through the purchase of shares or assets. The securities regulation code applies to public limited companies and to private companies with 10 or more shareholders, and capital and reserves in excess of R5 million. If a stake of 30% or more is acquired, an offer must be made to minority shareholders to acquire all their shares at a price equal to the highest paid by the investor.

South Africa still has a number of sectors that are dominated by state-owned enterprises. Eskom supplies nearly 94% of South Africa's electricity while state-owned Transnet dominates the transport sector and contributes more than 3% of South Africa's GDP. In 2004, Transnet unveiled a strategy to focus solely on rail, port and oil pipeline operations. All other companies previously administered by Transnet, including South African Airlines (SAA), are being discarded. Telkom, the fixed-line telephone operator, continues to enjoy a monopoly on fixed-line telecommunication services despite the end of legislative protection in May 2002. A second national operator (SNO) is close to resolving shareholder concerns and could be licensed in early 2005. The South African Post Office still enjoys a legislative monopoly on the delivery of mail.

South Africa's Competition Commission and Tribunal have demonstrated an increased capacity to implement competition policy effectively. The Competition Act of 1998 and its

1999 and 2000 amendments address anti-competitive mergers and practices in both the private and public sectors. State-owned enterprises that compete unfairly with the private sector are being challenged with greater frequency. Economic dominance by state-owned enterprises and previous weak competition legislation could be partly to blame for high concentration levels and business practices out of step with the requirements of a competitive economy.

6.7 Protection of Property Rights

The South African legal system protects and facilitates the acquisition and disposition of all property rights, such as land, buildings and mortgages. Deeds of sales are registered in the Deeds Office. Banks provide finance for their clients to purchase a property through registering a mortgage as security on the property.

All agreements relating to payment for the right to use know-how, patents, trademarks, copyrights or other similar property are subject to approval by the exchange control authorities. A distinction is made between consumer goods and capital goods. For consumer goods, a royalty of up to 4% of factory selling price is regarded as acceptable. For intermediate and finished capital goods, a royalty of up to 6% will generally be approved.

Owners of patents and trademarks may license them, but when this entails the payment of royalties to a non-resident licensor, the royalty agreement must be approved by the DTI. Patents are granted for 20 years - usually with no option to renew. Trademarks (including service marks) are valid for an initial period of 10 years and are renewable indefinitely for further 10-year periods. The holder of a patent or trademark must pay an annual fee to preserve its validity.

Literary, musical and artistic works, cinematographic films, and sound recordings are eligible for copyright under the Copyright Act of 1978. New designs may be registered under the Designs Act of 1967, which grants copyrights for five years.

The Counterfeit Goods Act was adopted to provide additional protection to owners of trademarks, copyright and certain marks under the Merchandise Marks Act of 1941. The 1997 Act covers offenses related to counterfeit goods, including possession of such goods. The Intellectual Property Laws Amendment Act, adopted to amend the Merchandise Marks Act of 1941, the Performers' Protection Act of 1967, the Patents Act of 1978, the Copyright Act of 1978, the Trade Marks Act of 1993, and the Designs Act of 1993, aims to bring South African intellectual property legislation fully in line with the Trade-Related Aspects of Intellectual Property Rights (TRIPS) Agreement. Amendments to the Patents Act of 1978 were also intended to bring it in line with TRIPS, and provides for the implementation of the Patent Cooperation Treaty (PCT), to which South Africa became a party in March ¶1999.

The International Intellectual Property Alliance continued to note concerns about the piracy levels of optical discs, which it estimated to be 40% in 2004. A local watchdog, the SA Federation Against Copyright Theft (Safact), reported on its website (www.safact.co.za) statistics on seizures of counterfeit DVDs as well as a number of successful criminal court cases against pirates in 2004, demonstrating an increased commitment to IPR enforcement in 2004.

6.8 Transparency of the Regulatory System

Government promulgated the new International Trade Administration Act in 2002. This Act established the International Trade Administration Commission (ITAC) and is responsible for tariff administration and trade remedies (antidumping and countervailing measures). In terms of the new Act, the Commission shall be responsible, among other things, for investigating and evaluating applications with regard to alleged dumping, or subsidized exports, safeguard measures, and amendments of customs duties in the common SACU area. The Commission is required to implement measures to promote public awareness of the provisions of the new Act.

In general, South Africa's Companies Act (1973) provides for clear, transparent regulations concerning the establishment and operation of businesses. Business organizations of more than 20 persons that operate for gain must be registered as a company under the Act. Foreign investors are organized under the same rules and regulations as domestic firms, with one exception: foreign companies that choose not to form a firm in SA operate as "external companies." The legal liabilities of an external company are not limited.

No government approval is required for foreign investors to establish a new business in South Africa apart from the approval required under the exchange control regulations. The investor will be required to appoint a

consultant/auditor/legal advisor to register a company on his/her behalf. The company should be registered within 21days; it should also register with the tax authority.

In South Africa there are no locations where a foreign-owned business is prohibited or investment is officially discouraged. The forms, which are to be filled by an investor, are simple and understandable. The whole process for foreign firms setting up in South Africa from beginning to end on average may take six months, but if done through Trade and Investment South Africa it can be finalized within one month. Virtually all business activities are open to foreign investors and there are generally no restrictions on foreign investment. Restrictions would usually relate to a particular industry and be applicable both to residents and non-residents. Very few restrictions apply only to foreign companies. For example, a foreign bank establishing a branch in SA may be required to employ a certain minimum number of local residents in order to obtain a banking license and may be obliged to have a minimum capital base. Restrictions also exist regarding the ownership of immovable property by foreign companies. Foreign companies are required to register as external companies before immovable property may be registered in their names.

All businesses must obtain a business license from the local authority, which is valid indefinitely unless the business is relocated or acquired by a new owner. In general, businesses must register with the local Regional Services Council, Department of Labor, Workman's Compensation Commissioner, the appropriate Industrial Council, the South African Revenue Service, and the Department of Customs and Excise.

6.9 Efficient Capital Markets and Portfolio Investment

South Africa's banks comply with international banking standards and offer one of the most sophisticated banking systems in the developing world. Customers have online, real-time, nationwide access to bank accounts 24 hours a day, 365 days a year. South Africa's political transformation, together with the relaxation of exchange controls and the greater liberalization of African economies, has meant that South Africa is now well positioned to provide global services through its own banks' foreign offices as well as the increasing presence of foreign bank representatives in South Africa.

After a fairly turbulent first half year of 2002, which saw the demise of a number of small and medium-sized banks, stability returned to the sector. South African banks remained well capitalized, and the average risk-weighted capital-adequacy ratio for the sector increased to 12.6 per cent at the end of December 2002, compared to 11.4% in 2001. Growth in the total balance sheet moderated during 2002, mainly as a result of a moderation in the growth of total loans and advances. By the end of December 2002, the total funds of banks - comprising capital, reserves, deposits and loans - had increased by 4.8 per cent (measured over a period of twelve months), to a level of R1.101 billion. Concentration in the South African banking sector increased noticeably during 2002, and the four biggest banks now represent about 80 per cent of the total banking sector. The participation of foreign banks in the local banking industry decreased for the first time in six years, from 7.7 per cent in 2001 to about 6.9 per cent of the total banking-sector assets by the end of December 2002. South African banks maintained adequate levels of liquidity despite liquidity strains experienced by the system during the first half of ¶2002.

Oversight of South Africa's banks is the purview of the South African Reserve Bank. The Bank Act of 1990 regulates private banks. The SARB is nearing completion of meeting all recommendations of the Basel Committee on Banking Supervision. A variety of credit instruments are available to the private sector, including bankers' acceptances, fixed and variable rate securities, bonds, and equities. In May 1995, amendments to the Banks Act permitted foreign banks to conduct banking operations via branches, ending the earlier requirement that they establish subsidiaries. A complete list of the registered banks, banking associations, development banks, and related organizations that maintain a presence in South Africa is available on an ABSA-sponsored website at www.finforum.co.za/fininsts/bankdir.htm.
Any person, whether South African or foreigner, may control a bank. There are three alternatives for conducting banking operations in South Africa (all of which require prior approval of the Registrar of Banks, who heads up the Bank Supervision Division): a separate banking company, a branch of an international bank or banking group, and a representative office of an international bank. The criteria for the registration of a bank are the same for domestic and foreign investors. Foreign banks, however, are required to include additional information with their application, such as: foreign bank holding company resolution approving

proposed formation of the bank, a letter of "comfort and understanding" from the foreign bank holding company, and a letter of no objection from the foreign bank's home regulatory authority.

The Financial Services Board (FSB) governs South Africa's sophisticated non-bank financial services industry. The FSB regulates insurance, pension funds, unit trusts (i.e., mutual funds), participation bond schemes, portfolio management, and the financial markets. The financial markets consist of:

The JSE Securities Exchange SA (www.jse.co.za)
The Bond Exchange of South Africa (www.bondex.co.za)

South Africa's financial markets are robust, liquid and well developed. Turnovers remained brisk in 2002 to date. In the bond market, for example, the value of turnover in a single month is approximately equal to South Africa's annual gross domestic product of one trillion Rand. Non-residents also take a keen interest in these markets. In an average month non-residents buy more than a R100 billion in bonds and R18 billion in shares on South African bourses. Although they also are engaged in selling bonds and shares, often of a roughly equal amount, some net inflow or outflow is recorded from month to month. During the first half of 2002 non-residents bought a net amount of R13 billion in shares and bonds on the South African formal exchanges, and sold R17 billion during the third quarter. Further net sales in n
October were followed by net purchases in November.

The JSE Securities Exchange is the 16th largest exchange measured by capitalization in the world. At the end of 2002 the market capitalization stood at around $182 billion (R1.6 trillion) with a total of 472 firms listed. This is much larger than all the exchanges in Africa combined. The JSE Securities Exchange includes AltX, an exchange for small and medium-sized companies launched in October 2003. AltX has ten companies with a market capitalization of approximately R1 billion. Early in 2005, the JSE plans to launch YieldX, a trading platform for interest rate products. The JSE Securities Exchange All Share Index broke through the 10,000 level during December 2001 when the Rand fell to record lows against the U.S. dollar but in July 2003 it stood at 8,600. The Index has since recovered with the strength of the Rand, climbing back above 10,000 in 2004 and reaching nearly 13,000 by December 2004.

The Bond Exchange of South Africa (BESA) regulates the fixed-interest securities market and is licensed under the Financial Markets Control Act. Membership includes banks, insurers, investors, stockbrokers, and independent intermediaries. The bond exchange consists principally of government bonds with some bonds from government parastatals also available. There is a growing corporate bond sector, however, as more companies seek to raise capital through this mechanism.

The Financial Services Board continues to assess and implement the recommendations of the International Organization of Securities Commissions in order to bring the non-banking financial services in line with international best practices. There are presently discussions underway to establish a single financial services regulator.
Financial services in South Africa are characterized by extensive interlocking shareholding relationships between the major banks and the large insurance companies. The securities markets are well developed. Non-residents' participation in the securities and stock markets has increased sharply. The JSE began permitting foreign banks and firms to join its registry in November 1995.

6.10 Political Violence

Political violence is not a major issue in South Africa. Criminal violence, however, is high. National and provincial governments have unveiled a number of programs aimed at attacking crime in general, and South Africa is working closely with donor countries to address this problem.

6.11 Corruption

South African law provides for prosecution of government officials who solicit or accept bribes. Penalties for offering or accepting a bribe may include criminal prosecution, monetary fines, and dismissal for government employees, or deportation for foreign citizens. South Africa boasts no fewer than ten agencies engaged in anti-corruption activities. Some, like the Public Service Commission (PSC), Office of the Public Protector (OPP), and Office of the Auditor-General (OAG), are constitutionally mandated and address corruption as only part of their responsibilities. Others, like the South African Police Anti-Corruption Unit and the Directorate for Special Operations (more popularly

known as "the Scorpions"), are dedicated to combating crime and corruption. High rates of violent crime, however, are a strain on capacity and make it difficult for South African criminal and judicial entities to dedicate adequate resources to anti-corruption efforts.

South Africa is not a signatory of the OECD Convention on Combating Bribery. South Africa signed the UN Convention against Corruption on December 9, 2003 and ratified it on November 22, 2004. Transparency International South Africa, an affiliate of Transparency International, has operated in South Africa since 1997.

During the last few years, crime has been a far more serious problem than either corruption or political violence and an impediment to, and a cost of, doing business in South Africa. The South African police forces have not been effective or well accepted in many communities because of their historical role in enforcing minority rule, their lack of training, and internal crime and corruption within the forces. The levels of crime, especially violent crime, are a deterrent to attracting U.S. companies to South Africa.

New laws, such as the Promotion of Access to Information Act signed into law in February 2000, have helped to increase transparency in government in the last few years. The Public

Finance Management Act, which became effective on April 1, 2000, helped to raise the level of oversight and control over public funds and improved the transparency of government spending, especially with regard to off-budget agencies and parastatals. Notwithstanding these efforts, businesses complain about the lack of certainty and consistency in interpreting and implementing some government policies.

President Mbeki signed "The South African Prevention and Combating of Corrupt Activities Act" (PCCAA) into law on April 28, 2004. The PCCAA makes it more clear which activities are considered graft. The act:

- includes a list of codified corruption offenses related to specific persons.

- clearly defines that graft occurs between a "corruptor" and a "corruptee."

- declares that a bribe need not be monetary in nature, nor need it be paid directly to the person who will be undertaking the corrupt act.

- bars the payment of bribes to foreign public officials by South African citizens and firms.

- provides a list of corruption-related offenses relating ting to specific matters in the public and private sectors.

- allows for the investigation and seizure of "unexplained wealth."

- tasks the National Treasury to establish a register of tender defaulters for corrupt individuals and firms.

- obliges public officials to report any corrupt activities.

- prescribes strict penalties, including the possibility of life imprisonment.

One shortcoming of the act is the failure to protect whistleblowers against recrimination or defamation claims.

6.12 Bilateral Investment Agreements

South Africa has bilateral investment agreements with Argentina, Austria, Belgium, Canada, Chile, the Czech Republic, Finland, France, Germany, Greece, Mauritius, the Netherlands, the Republic of Korea, Spain, Sweden, Switzerland, Turkey, and the United Kingdom. A Trade, Development, and Cooperation Agreement containing a Free Trade Agreement (FTA) went into force between South Africa ica and the European Union on January 1, 2000, but it does not have an investment chapter. Under the FTA, the EU is committed to the full liberalization of 95% of South African imports over a 10-year transitional period, while SA is to liberalize 86% of EU imports over a 12-year transitional period.

The U.S.-SA bilateral tax treaty, eliminating double-taxation of business officials from one country working in another was signed in February 1997 and became effective January 1, 1998. Agreements Regarding Mutual Assistance between the Customs Administrations of the United States and

South Africa came into force on August 1, 2001. The United States and South Africa signed the Trade and Investment Framework Agreement (TIFA) in February 1999, establishing a Council on Trade and Investment consisting of representatives of both governments. The council's last meeting was held in February 2002. U. S. Trade Representative Robert Zoellick visited South Africa in February 2002 and January 2003 and met with his SACU counterparts on both occasions. The United States and SACU decided to pursue a Free Trade Agreement (FTA) and held six rounds of negotiations since June 2003. The United States is seeking an investment chapter in the FTA.

The rate of South African Normal Company Taxation applicable to companies (other than small business corporations and "employment companies" with financial years ending after 1 April 1999) is 30%. Prior to April 1999, the company tax was 35% and prior to April 1994, the company tax rate was 40%. Companies are not entitled to any rebates except for foreign royalty and foreign taxes paid. Companies are also liable for secondary tax on companies (STC) at 12.5% in respect of all dividends declared after 13 March 1996. Close Corporations are treated as companies for taxation purposes.

Beginning in January 2001, South Africa moved to a residence-based income tax system. Taxes are levied on residents of SA irrespective of where in the world the income is earned. Although taxpayers are taxed on their worldwide income, some categories of income and activities undertaken outside SA are exempt from SA tax. External companies are taxed at a flat rate of 35% on their South African source profits. Effective October 1, 2001, SA also instituted a capital gains tax. Individuals include 25% of net capital gains in taxable income, and companies include 50% of capital gains in taxable income. As a result, the effective capital gains rate for individuals will vary from zero0 to 10.5% and the rate for companies is 15%. SA also has a 14% value-added tax (VAT). Exports are zero-rated and no VAT is payable on imported capital goods.
To further encourage business investment, the Minister of Finance in February 2003 made several proposals that will offer tax relief to companies. These include:

The accelerated depreciation arrangements for manufacturing assets, introduced as a temporary measure, will be retained as a fixed element in the tax policy.

In keeping with practice in many other jurisdictions, relief will be provided where business asset sale proceeds are reinvested within 18 months.

Taxpayers will be allowed to claim losses from ordinary revenue on the sale of devalued depreciable business assets with short economic lives.

An accelerated four-year write-off period is proposed for capital expenditure relating to research and development in the field of natural and applied science.

A double deduction is introduced for the first R20, 000 of costs incurred in the start-up of new businesses. The turnover limit for small businesses qualifying for a lower company tax rate will be increased from R3 million to R5 million.

The government also introduced tax measures in 2003 to
to
encourage urban development. It announced that investment in refurbishment or construction of buildings in certain urban areas would receive special treatment. Taxpayers refurbishing a building within designated zones will receive a 20 per cent straight-line depreciation allowance over a five-year period. Construction of new buildings within such a zone will receive a 20 per cent write-off in the first year and five per cent a year for a further 16 years. This benefit will be available to owners as users of the building or as lessors/financiers of these investments. A complementary proposal extends tax advantages to public benefit organizations that provide affordable housing to low-income households in underdeveloped urban areas, as part of a more comprehensive broadening of the list of activities qualifying for tax-deductible donations. The Minister of Finance also announced the scrapping of "a potentially harmful tax practice" in the form of the International Headquarter Company regime as the need for this exemption was obviated by the removal of the foreign dividend tax.

6.13 OPIC and other investment insurance programs

The Overseas Private Investment Corporation (OPIC) supports, finances, and insures U.S. overseas investment projects that are financially sound. Its assistance contributes significantly to the social and economic development of the host country. OPIC aids U.S. investors through the following four principal activities, which are designed to promote overseas investment and reduce the associated risks:

Financing businesses through loans and loan guarantees.

Supporting private investment funds.

Insuring investment against a broad range of political risks.

Engaging in outreach activities designed to inform the American business community.

South Africa signed a bilateral investment incentive
ive
agreement with the United States in November 1993 with respect to all of OPIC's programs. Today, OPIC backs a number of investment funds focused on Sub-Saharan Africa including the Africa Growth Fund ($25 million), the Modern Africa Growth and Investment Fund ($105 million), and the ZM Investment Fund ($120 million). OPIC also recently established the $350 million Sub-Saharan Africa Infrastructure Fund (SAIF) to target infrastructure projects in all of Sub-Saharan Africa, including South Africa.

During 2003, OPIC helped the National Urban Reconstruction and Housing Agency (Nurcha), a wholesale housing income fund, to establish a scheme to lend directly to needy contractors in a bid to ensure small developing contractors have access to finance. Nurcha will use funds from the R200 million transaction to lend out R100 million this year to fund projects, facilitating construction of about 24,000 affordable homes. The new scheme, which is intended to speed up the delivery of affordable housing, will use intermediaries to handle contractors' financial issues. Previously the Nurcha Fund acted only as a guarantor for loans from financial institutions to emerging contractors, and the contractors had to handle their own finances. Additional information is available at www.opic.gov. South Africa is also a member of the World Bank's Multilateral Investment Guarantee Agency (MIGA).

16.14 Labor

Since 1994, the South African Government has been systematically removing the vestiges of the apartheid labor system. The government is attempting to erect in its place a labor market system that is characterized by employment security, reasonable wages, and decent working conditions. The new system, which was negotiated between government, business, and organized labor under the aegis of the National Economic Development and Labor Council (NEDLAC), places a high value on worker rights and collective bargaining between parties that are equally empowered.

The new labor dispensation rests on four legislative pillars:

(1) The Labor Relations Act, in effect since November 1996, is the cornerstone of the entire regulatory structure. It enshrines both the right of workers to strike and also the right of management to lock out workers and hire replacement labor during a strike. The Act created the Commission on Conciliation, Mediation, and Arbitration (CCMA). The Commission currently has a caseload far in excess of that which was originally projected because of the ease of access to its services.

(2) The Basic Conditions Employment Act, implemented in December 1998, establishes a 45-hour workweek and minimum standards for overtime pay, annual leave, notice of termination, and the like.

(3) The Employment Equity Act prohibits unfair employment discrimination and requires large and medium employers to prepare affirmative action plans to ensure that blacks, women, and disabled persons are adequately represented in the workforce.

(4) The Skills Development Act imposes a levy on employers equal to 1.0% of payroll to be used for training programs devised by industry-specific training authorities and jointly administered by employer organizations and labor.

Many in business claim that the South African labor market is over-regulated and have urged the government to scale back some of the recently passed legislation. In response, the Labor Minister proposed a number of amendments to the labor laws, which were later, refined and agreed upon in an informal business-labor body known as the Millennium Labor Council (MLC). These amendments were passed by Parliament in March 2002. In its 2002 Article IV Staff Report on South Africa, released on 23 January 2003, the IMF noted that conditions in the labor market had improved with the introduction of legislation to streamline the arbitration process and allow for more flexibility in employment.

According to the latest (March 2004) Labor Force Survey, published by Statistics SA, the official unemployment rate is 27.8%. This rate uses the International Labor Organization (ILO) definition of unemployed, which excludes persons who have not looked for work in the four weeks prior to the interview.

There are about 3.3 million union members in South Africa, composing 44% of the formal sector employment. Most union members belong to affiliates of one of the three major union federations: the Congress of South African Trade Unions (COSATU), the Federation of Unions of South Africa (FEDUSA),

or the National Council of Trade Unions (NACTU). Although COSATU, the largest federation with some 1.8 million members, is formally allied with the ruling African National Congress (ANC) and the South African Communist Party (SACP), it often opposes the government on matters of economic policy. One of COSATU's particular targets is governmental efforts to privatize municipal services and state-owned corporations. Striking is protected under South African law, but, in general, labor militancy has been declining since 1994.

16.15 Foreign Trade Zones/Free Ports

The DTI website states there are no foreign trade zones or free ports in South Africa, though there are bonded warehouses at various ports of entry. General rebates of duty are available for specific situations, and duties may be rebated on goods on re-export.

South Africa has what it terms "Industrial Development Zones." They are fairly new as the first one was only designated in 2001. The IDZ program and the regulations were introduced in 2000. There are IDZs in Port Elizabeth (Coega) and East London (both in Eastern Cape province), Richards Bay (in KwaZuluNatal province) and Johannesburg International Airport in Gauteng province. An IDZ is run by an IDZ operator, which can be government-owned, privately owned, or PPP (Public Private Partnership)- structured. Customs control will be part of the IDZ operations and handled by the South African Revenue Service (SARS). Licensing of enterprises is part of the process and is performed by the Manufacturing Dev Board as the adjudicating authority in collaboration with SARS. The customs benefits related to manufacturing or processing in the zone are duty-free and VAT-suspension on imports and exports, provided that the finished product is exported. Expedited services and other logistical arrangements can be provided for SME businesses or for new foreign direct investment. Co-funding for infrastructure development is available. There are no exemptions from other laws or regulations, such as environmental and labor laws.

16.16 Foreign Direct Investment Statistics

Foreign direct investment (FDI) data is readily available in South Africa, but published statistics vary depending on their source and definition. Among the numerous institutions that provide foreign investment data, the U.S. Embassy in South Africa tends to rely mostly on the South African Reserve Bank (SARB). The SARB statistics conform to the IMF definition of FDI* and represent actual investment, excluding announced but not completed, "intended" investment. However, the SARB does not provide country-specific figures that distinguish between actual new investment flows and changes in investment stocks caused by asset swaps, exchange rate adjustments, and mergers and acquisitions. This situation makes it difficult to track the United States' and other countries' FDI position in SA on a yearly basis. Because SARB statistics only provide an annual total for all the countries' flows combined, observers also often consult more updated information obtained from the South Africa-based firm "Business Map" (BM). The latter offers fee-based services for a wide range of investor-related data and analysis and may be contacted via its web site at www.bmap.co.za.

(*FDI is generally defined as ownership of at least 10% of the voting rights in an organization by a foreign resident or several affiliated foreign residents, including equity capital, reinvested earnings, and long-term loan capital.)

The following FDI statistics were drawn from the SARB's September 2004 Quarterly Bulletin. The conversion exchange rate used was that of the average for each year cited.

Table A: Average exchange rates used

	1999	2000	2001	2002	2003
US$/Rand	6.11	6.94	8.60	10.52	7.56

Table B: Year-end stock of Foreign Direct Investment in South Africa

	1999	2000	2001	2002	2003
Rand (billion)	318.63	328.86	370.70	255.84	303.44
US$ (billion)	52.15	47.39	43.10	24.32	40.14

Table C: Year-end stock of South African Direct Investment Abroad

	1999	2000	2001	2002	2003
Rand (billion)	203.04	244.65	213.18	189.91	180.51
US$ (billion)	33.23	35.25	24.79	18.05	23.88

(Table D: GDP (in Rand billion at current prices) & FDI as a percentage of GDP

	1999	2000	2001	2002	2003

GDP	813.68	922.15	1020.01	1164.94	1251.47
FDI (%)	39.2	35.7	36.3	22.0	24.3

Table E: Year-end stock of FDI in South Africa by region/country (in billions)

REGION/COUNTRY	RAND 2002	RAND 2003	US$ 2002	US$ 2003
EUROPE - Total	211.2	245.8	20.1	32.5
UNITED KINGDOM	158.2	188.4	15.0	24.9
GERMANY	22.1	22.9	2.1	3.0
SWITZERLAND	6.0	6.1	0.6	0.8
NETHERLANDS	12.8	16.1	1.2	2.1
FRANCE	3.6	4.1	0.4	0.5
ITALY	1.4	2.0	0.1	0.3
N&S AMERICA - Total	25.1	32.1	2.4	4.2
USA	23.9	29.5	2.3	3.9
AFRICA - Total	5.5	4.7	0.5	0.6
ASIA - Total	13.9	20.5	1.3	2.7
MALAYSIA	7.1	10.0	0.7	1.3
JAPAN	3.4	7.1	0.3	0.9
OCEANIA - Total	0.2	0.4	0.0	0.1
TOTAL	255.8	303.4	24.3	40.1

Table F: Year-end stock of South African direct investment abroad by region/country

REGION/COUNTRY	RAND 2002	RAND 2003	US$ 2002	US$ 2003
EUROPE - Total	152.4	137.4	14.5	18.2
UNITED KINGDOM	45.5	44.1	4.3	5.8
LUXEMBURG	46.8	43.7	4.5	5.8
AUSTRIA	27.0	11.2	2.6	1.5
OTHER	33.0	38.4	3.1	5.1
N&S AMERICA - Total	24.8	17.0	2.4	2.2
USA	22.9	14.9	2.2	2.0
AFRICA - Total	14.2	15.8	1.4	2.1
ASIA - Total	4.4	3.5	0.4	0.5
OCEANIA - Total	7.0	6.8	0.7	0.9
TOTAL	202.8	180.5	19.3	23.9

Table G: Year-end stock of FDI in South Africa by industry sector (Billions)

INDUSTRY	RAND 2002	RAND 2003	US$ 2002	US$ 2003
Agriculture, Forestry & Fishing	0.7	0.5	0.1	0.1
Mining	80.6	103.1	7.7	13.6
Manufacturing	67.3	75.4	6.4	10.0
Construction	1.9	1.9	0.2	0.3
Trade, Catering, & Accommodation	13.3	13.4	1.3	1.8
Transport, Storage, & Communication	10.1	22.0	1.0	2.9
Finance, Insurance, Real Est. & Business Services	81.6	86.6	7.8	11.5
Social services	0.4	0.4	0.0	0.1
TOTAL	255.8	303.4	24.3	40.1

Table H: FDI Flows into South Africa: Investment by foreigners in undertakings in SA in which they have at least 10% of the voting rights - Capital movements 1995 to 2002 in Rand billions (inflows)

1995	4.5
1996	3.5
1997*	17.6
1998	3.1
1999	9.2
2000	6.2
2001*	58.4
2002	8.0

2003	5.8

*The high inflow in 1997 was due to the 30% privatization of Telkom while the jump in 2001 is the result of the Anglo American/ De Beers transaction.

Table I: FDI flows: Investment by South Africans in undertakings abroad in which they have at least 10% of the voting rights - Capital movements 1995 to 2002 in Rand billions (outflows)

1995	9.1
1996	4.5
1997	10.8
1998	9.8
1999	9.7
2000	1.9
2001	-27.4 (inflow - decrease in investment abroad))
2002	-4.2 (inflow- decrease of investment abroad)
2003	5.4

*2001 De Beers/ Anglo American transaction resulted in the return of capital, previously invested abroad, to South Africa

For 2003, the Business Map Foundation, a non-profit South African based research organization and think tank, * reported that during the first quarter, FDI inflows were slow. However, during the second quarter, plans for a number of noteworthy investments were announced. Daimler Chrysler announced a R2 billion-expansion deal. This, plus a R123 million investment in improving the facilities at two Da Gama Textile plants, made Germany the leading investor by country in this quarter. Japan was the second largest investor in quarter 2, 2003 with Toyota announcing that it is to invest a further R1.7 billion to enhance its exports. South Africa has been confirmed as one of five worldwide locations approved by Toyota Motor Corporation for the production of a new generation light commercial vehicle. On U.S. investment, the Ford Motor Corporation of South Africa announced its intention to expand into a R280 million project to refurbish its paint shop.

(* The Business Map definition of FDI includes mergers and acquisitions, new investments, privatization, expansions that result in new productivity capacity, and plans or intentions to invest, i.e., commitments.)

The South African branch of Barclays Bank PLC announced on July 2, 2003 that it had received about R470 million in additional capital from the UK banking group. The capital will be used to further grow its operations in this country and to establish a local business structure capable of supporting its customers who are growing their Pan African operations, it said. Barclays South Africa branch, which provides corporate and investment banking services, has over the first six months of 2003 strategically positioned itself to become a more prominent player in the South African market. This is evident in the appointment of an experienced team of corporate bankers focused on expanding its corporate and investment banking unit as well as moving the Barclays Africa headquarters from London to South Africa.

BusinessMap set third quarter 2004 FDI at R27.8 billion, due to Barclays Banks' plans to obtain a majority share in ABSA bank. Investment by vehicle makers is forecast to reach a five-year high of R3.5 billion in 2004 and South African Breweries has committed themselves to a R5 billion investment over the next five years. Other major companies with ambitious investment plans include Sasol, with capital spending peaking at R15 billion, PPC to add capacity worth almost R1 billion with Eskom and Telkom expected to spend R165billion to improve infrastructure.
Since 1994 many foreign firms have opened up (or re-opened) offices in South Africa. It is estimated that there are nearly 700 American companies (including subsidiaries and joint ventures, local partners, agents, franchises and representatives.) doing business in South Africa. The second and third highest numbers of companies per country are from Germany and the U.K. respectively.

Key investment industries in South Africa:

South Africa is a food self-sufficient country and the bulk of the population's food needs are produced locally from raw materials. South Africa's well developed food and beverages industry has become a global player. Some of the major international agro-processing companies that have a presence in South Africa are: Unilever, Nestle, Coca-Cola, Danone, Parmalat, Kellogg, HJ Heinz, Cadbury-Schweppes, Virgin Cola, McCain Foods of Canada, Pillsbury, and Minute Maid.

The South African Automotive and Components industry is on a growth path and is well placed for investment opportunities.

BMW, Ford, General Motors, Volkswagen, Daimler-Chrysler and

Toyota all have production plants in South Africa. .
General Motors / Opel is also intent on significant investments in its Port Elizabeth plant.

Four major commercial banking groups who provide retail and investment banking services dominate the South African banking industry. The European, Malaysian and U.S. banks that have banking licenses have so far concentrated on corporate as opposed to retail banking. Foreign banks are gaining market share by charging aggressive lending margins.

The chemical industry is the largest manufacturing sector of the SA economy, accounting for some 5% of GDP. The country is a world leader in the manufacture of synthetic fuel from coal. Four oil refineries dominate the petroleum and petrochemical industry plus the Sasol and Mossgass (PetroSA) Fischer-Tropsch based operations. The rest of the chemical manufacturing sector consists mainly of AECI, Sentrachem and fertilizer plants.

The following companies have invested in excess of R1 billion in South Africa since 1994:

Table F: TOP FOREIGN COMPANIES INVESTED IN SOUTH AFRICA

Canada	- Placer Dome
Denmark	- AP Moller
France	- Lafarge
Germany	- BMW
Italy	- Cirio (Del Monte)
Switzerland	- Movenpick Hotels
UK	- Billiton; Lonrho Plc, SA Breweries, Anglo American
U.S.	- Caltex; Coca Cola; Dow Chemicals; IBM;
Saudi Arabia	- Oger

Other significant U.S. investors include: Ford, McDonalds, Levi Strauss, Minute Maid, Nike, Salem, Silicon Graphics, Microsoft, HP, Dell, Sara Lee, Caterpillar, Goodyear, Eli Lilly, Fluor and General Electric.

END TEXT

MILOVANOVIC